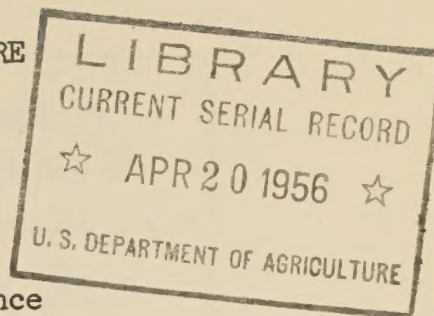


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UNITED STATES DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service

THE AGRICULTURAL OUTLOOK

Talk by Frederick V. Waugh, Director  
Agricultural Economics Division  
at the 33rd Annual Agricultural Conference  
Washington, D. C., November 28, 1955



When we met a year ago, we expected business conditions to continue to improve. But we expected some drop in farm income, with agricultural prices in 1955 averaging no higher than those prevailing in the fall of 1954.

We were right in direction, but we underestimated the size of the changes. Actually, we have experienced a business boom. Employment, industrial production, and the gross national product are all somewhat greater than we anticipated. Actually, we have experienced a sharper drop in agricultural prices and farm income than we expected. Prices of farm products fell about 5 percent from 1954 to 1955. Realized net farm income fell 10 percent.

Looking ahead to 1956, we again expect business conditions to be very good. We again expect agricultural prices and incomes to lag behind.

If the expansion in hog production will come to a halt some time next year, livestock producers may get about the same incomes in 1956 as in 1955. But we expect further declines in the prices of major crops and in the incomes of farmers producing these crops. With average weather, total crop output is likely to be high again. There will likely be no significant reductions in carryover stocks. Present legislation permits lower levels of price supports for some major crops.

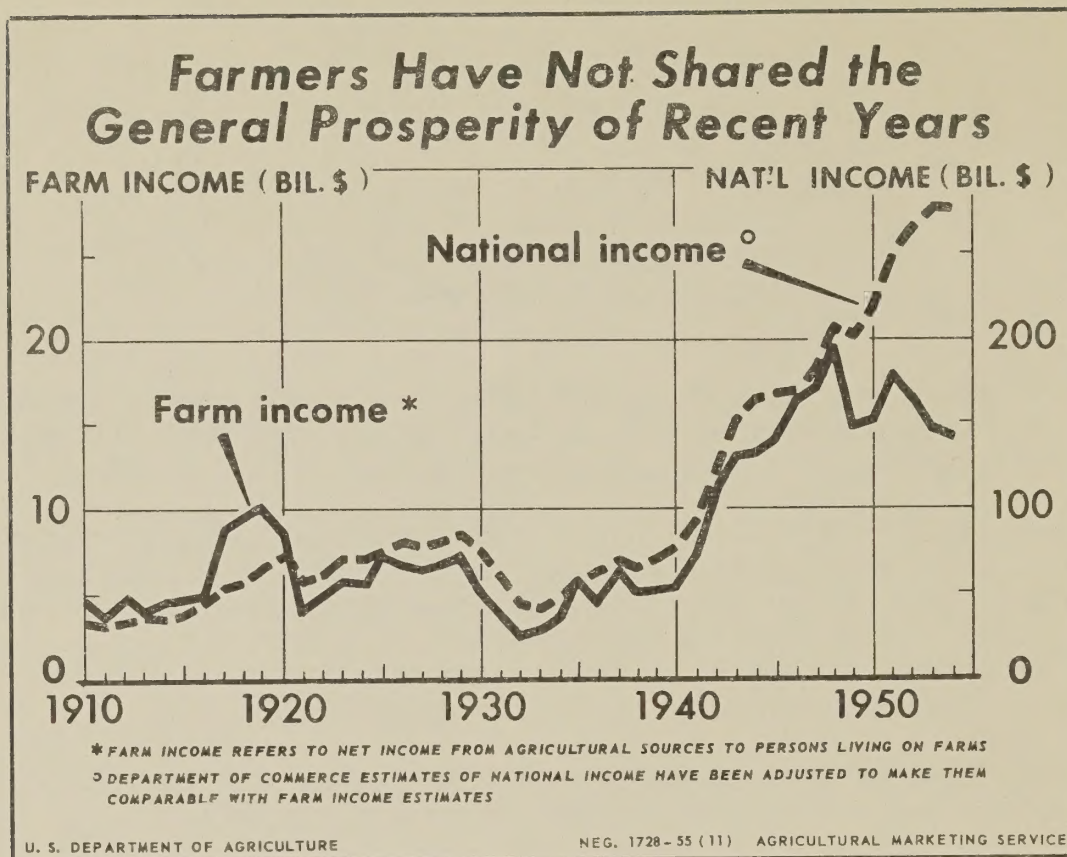
This would indicate a further drop in cash receipts from farm marketings. Production costs are not likely to go down much--considerably lower feed costs being largely offset by higher costs of manufactured goods. Marketing charges, too, are likely to average higher in 1956 than in 1955.

In other words, we expect the "cost-price squeeze" to continue in 1956. We expect some further drop in net farm incomes. We have never been able to forecast the exact amount of change in farm income. I shall not attempt it now. My own feeling, based on discussions with our economists and statisticians, is that the drop from 1955 to 1956 will be less than that from 1954 to 1955.

This leaves out of account any changes in farm programs that may be made in the coming session of the Congress. Such changes could affect the long-term outlook very substantially. But I doubt if they would affect the 1956 outlook very decisively. No adjustments in the farm programs are likely to make an immediate change in the basic economic facts confronting the farmer. It took several years for American agriculture to get into its present troubles. Economists and statesmen can help to get it out, but it will take time to do it.

To understand the agricultural outlook we must, of course, study the basic economic facts, including current and foreseeable trends. My talk today will be a brief discussion of 15 charts.





Agricultural economists have long recognized that there is usually a high correlation between changes in national income and changes in farm income. The first chart shows this fact very clearly for most of the period from 1910 to date. In general, farm income has gone up whenever national income has risen. In general, farm income has dropped when national income has fallen.

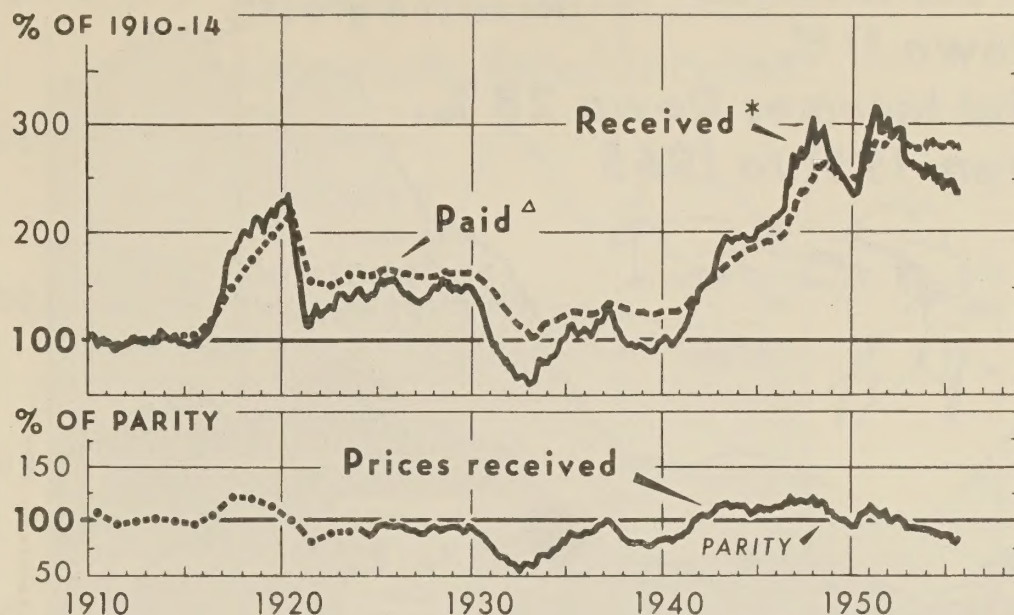
Since 1910 there have been two periods in which the relation between farm income and national income was unusual. The first was the World War I period from 1917 through 1920. In this period farm income rose much more than did national income. This was the result of a huge and unexpected foreign demand for some of our principal farm products.

Aside from World War I, the only other period where the relationship looks decidedly unusual is that of recent years, especially since 1951. Since 1951, national income has risen very substantially. During this same period the trend in farm income has been definitely downward. In other words, the farmer has not shared in the general increase in prosperity in recent years. This has probably been due mainly to three factors. First, very high rates of agricultural production and large carryovers of farm products; second, a considerable drop in agricultural exports from 1951 to 1952; and, third, inflexibility of costs of production and marketing which failed to go down when farm income was falling.

I shall return to this chart at the end of my talk and shall discuss briefly some of its main economic implications to agriculture and to the rest of the economy.



## Farmers' Prices Down Since 1951- Parity Ratio Lowest Since 1940



\* MONTHLY DATA

Δ INCLUDES INTEREST, TAXES, AND WAGE RATES. ANNUAL AV. DATA, 1910-23;  
BY QUARTERS, 1924-36, BY MONTHS, 1937 TO DATE

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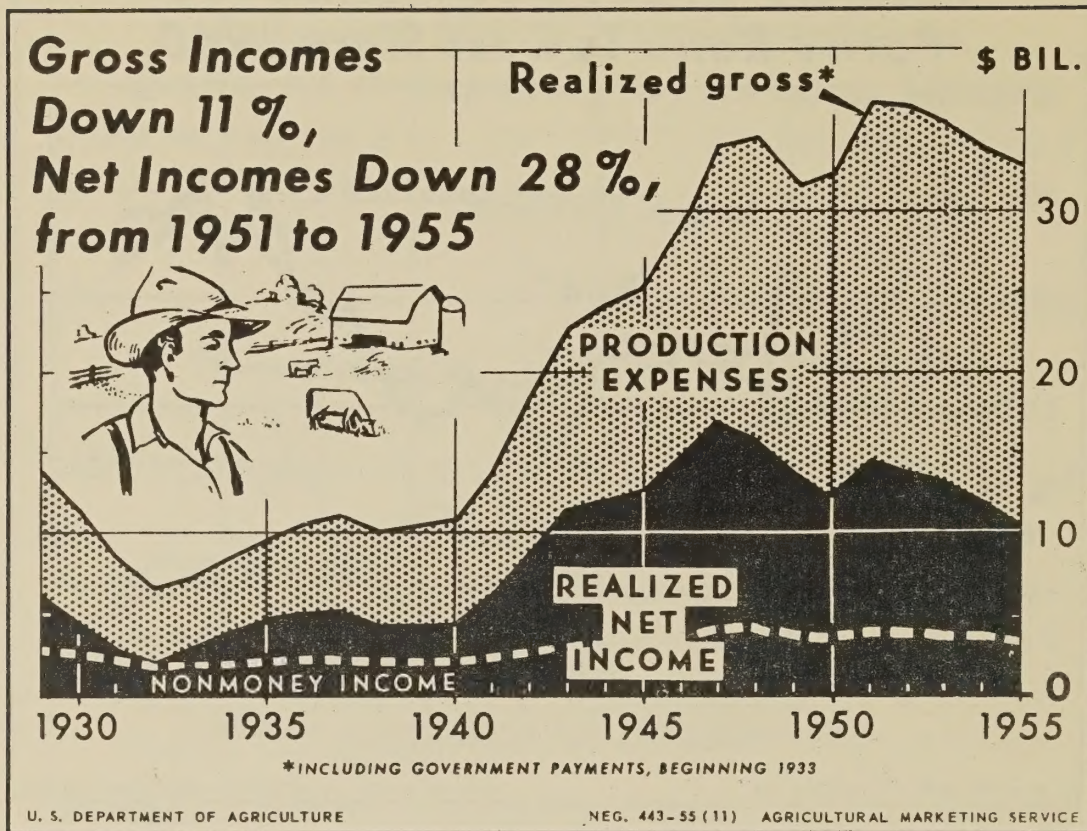
Prices received by farmers in mid-October averaged 5 percent below those of a year earlier. On the other hand, prices paid by farmers, including interest, taxes, and farm wage rates in mid-October were almost the same as in October 1954. The October parity ratio was 5 percent below that of a year earlier and the lowest since World War II began.

The parity ratio is simply the ratio between the two lines on the top part of the chart. It reached a high of 123 in October 1946. The post-Korean peak was 113 in February 1951. Since that time the parity ratio has fallen rather steadily, reaching a low of 82 in October 1955.

A year ago I said that a parity ratio between 85 to 95 would not be out of line with the ratios realized in peacetime years of high employment in the past. However, the October 1955 parity ratio of 82 is lower than we should expect in a time of general economic boom.

Looking ahead to next year we expect some further decline in the index of prices received by farmers, but not much different from the lows being reached this fall. This is mainly due to expected lower average prices of major crops in 1956. Prices of livestock and livestock products may average close to those of this year, especially if the increase in hog production comes to a halt. Beef cattle prices may improve somewhat. Milk prices should average about the same as in 1955. Prices of hogs and of poultry products may average a little lower. In the case of major crops, we now have very large supplies, including heavy carryovers. With normal weather we can expect large crops again next year. Price supports of some major crops can be reduced under present legislation. Presumably support levels for some of these crops will be lowered.



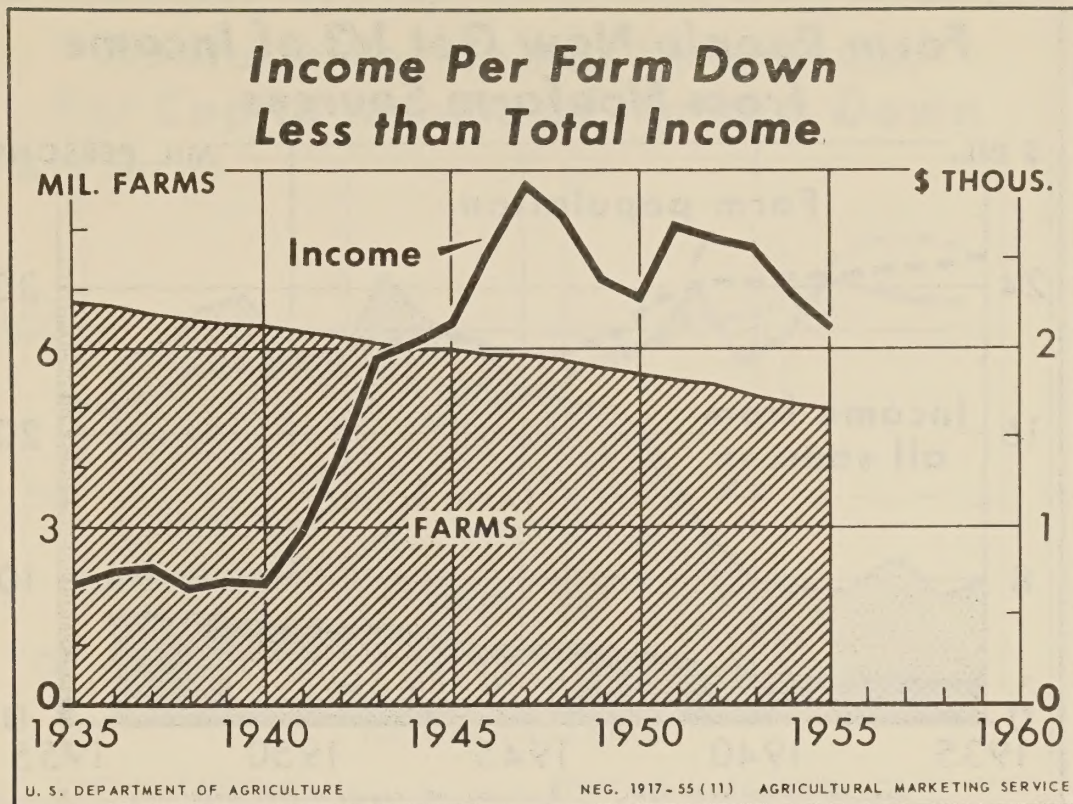


From the end of World War II to 1948 there was a steady increase in gross farm income. But in 1949 gross income dropped 3 billion dollars. This was the largest drop in any postwar year. It doubtless resulted in part from the moderate business recession of 1949. Then came Korea and a sharp increase of about 5 billion dollars in gross income from 1950 to 1951. Since 1951 the trend has been down. It has lost most of the Korean bulge, but it is still slightly above the 1950 level. We expect some further decline in gross income in 1956. This is due mainly to expected drop in prices of crops. To some extent it also reflects the effects of tightening acreage allotments and marketing quotas.

Although the peak in gross farm income occurred in 1951, the peak in realized net income was in 1947. Net farm income dropped substantially from the peak of 1947 to a temporary low in 1950. There was a gain of some 2 billion dollars in 1951, when farm prices reached their all-time high. Since then there has been another drop amounting to over 4 billion dollars.

There may well be a slight drop in production expenses due almost entirely to lower prices of feed and other items originating in agriculture. But we expect some further decline in realized net farm income in 1956.

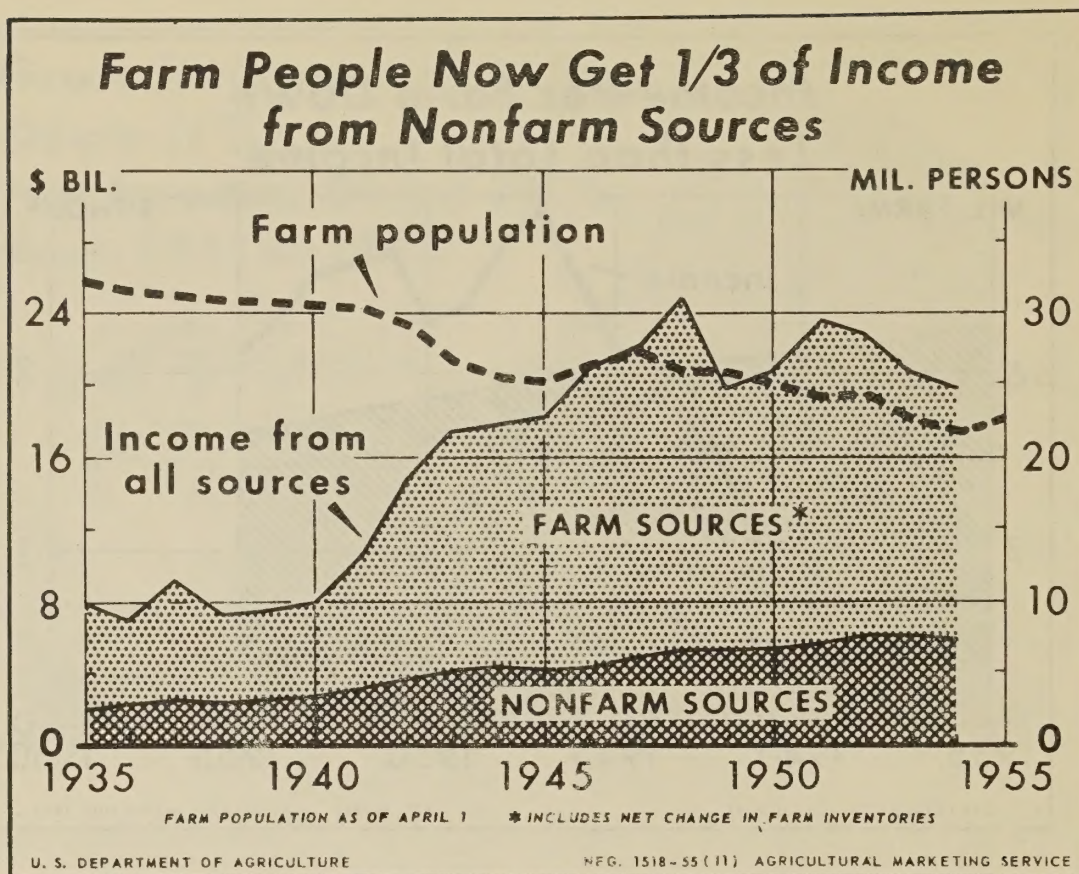




While the realized net income of agriculture as a whole dropped almost 30 per cent since 1951, the number of farms dropped about 10 percent so that realized net income per farm is down about 20 percent. On a per farm basis, net income in 1955 was not much under that of 1950. In terms of constant purchasing power, however, the per farm income this year is appreciably less than in 1950.

Our estimates of farm income, whether on an aggregate basis, a per farm basis, or per capita basis, are often criticized because they include a large number of noncommercial farmers who have very low incomes. The average income of commercial farms, is of course, above the average income for all farms. But the difference should not be over-emphasized. Just to gain some perspective, assume for the moment that the three million commercial farmers received the entire 10.6 billion dollars of realized net income of all farmers in 1955, (obviously an overstatement). This works out to about \$3,500 per farm. Does this seem like an exceptionally high income compared with the incomes of about \$4,000 a year now being earned by factory workers? Remember that the commercial farmer has high investments. Also, that farming today requires a high level of technical and managerial competence comparable to that of the most highly skilled workers.



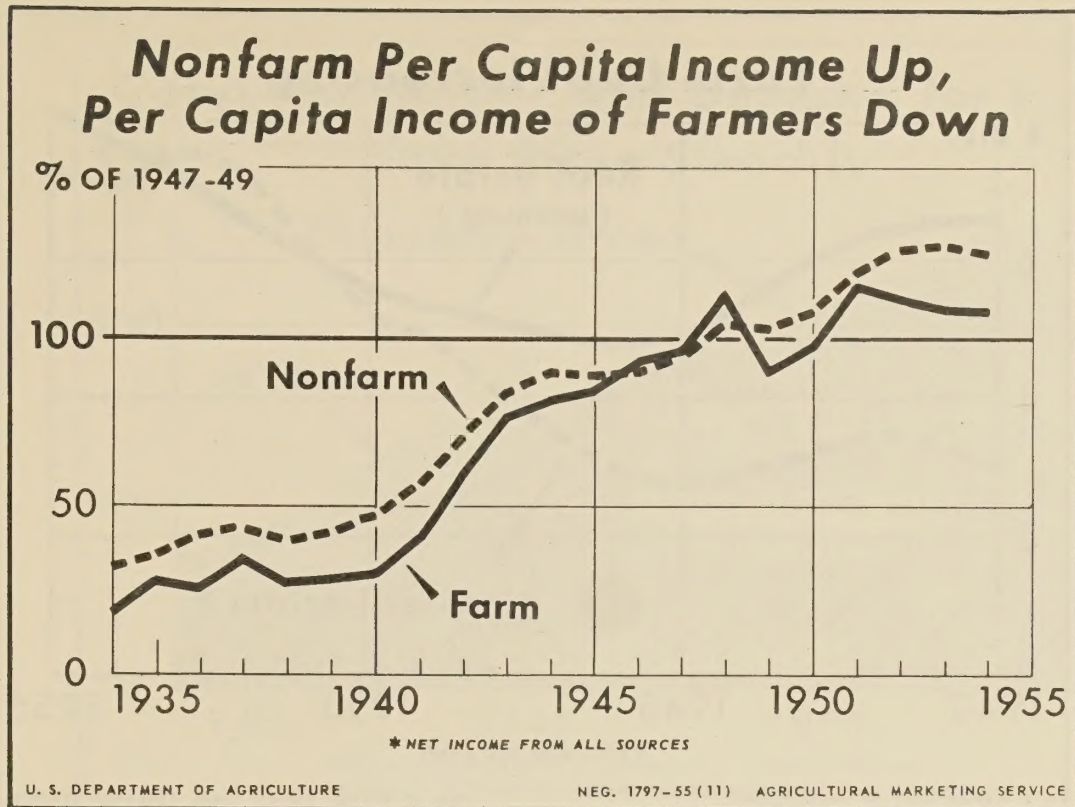


So far we have talked about gross and net income from agricultural sources. This chart shows our estimates of farmers' incomes from all sources, nonfarm as well as farm. It also shows the downward trend of the farm population.

Farm people are now getting about a third of their income from nonfarm sources. For this reason their total income has not varied so much as has their income from farm sources alone. Their income from nonfarm sources has held fairly stable during recent years, while their income from farm sources has fallen.

The farm population in 1955 is about 12 percent smaller than that of 1950. Even though farm population is smaller than in 1951, it has not dropped so much as has the farmer's income from all sources. This will be seen more clearly in the following chart.

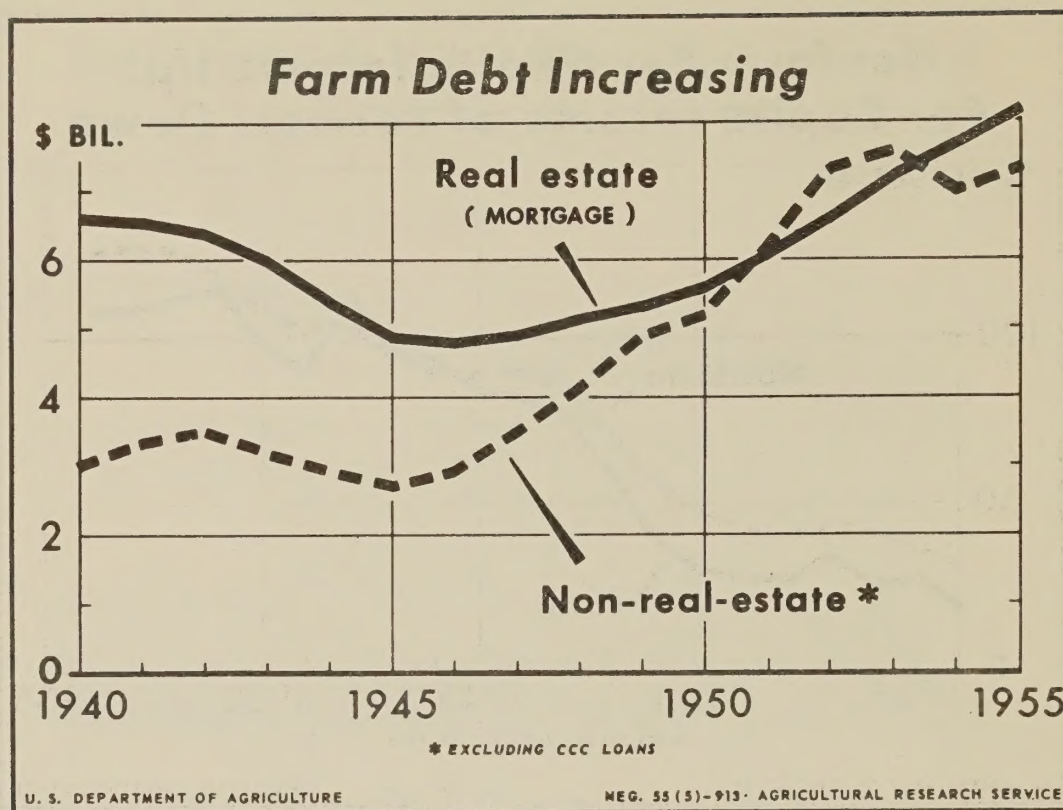




When we show the per capita incomes of farmers and the per capita incomes of nonfarmers on the same chart we often get into an argument about the difference in level between the two figures. Note that this chart does not show the number of dollars received by farmers and nonfarmers. Rather, it shows index numbers with the base period 1947-49=100.

Most of the time since 1934 there has been a high correlation between changes in per capita farm income and per capita nonfarm income. Note that from 1934 through 1948 per capita farm incomes rose more than did per capita incomes of persons not on farms.

Since 1951, however, the per capita incomes of farmers has been trending downward, while the per capita income on nonfarmers has been trending upward. Between 1951 and 1954, the per capita income of farm people dropped 7 percent, while the per capita income of nonfarm people went up 5 percent. The figures in 1955 are not all in yet. However, it looks as though per capita incomes of persons on farms declined further from 1954 to 1955, while the per capita incomes of persons not on farms continued to rise as a result of the business boom and rising wages.



Total farm debt dropped from 9.9 billion dollars in 1942 to 7.6 billion dollars in 1945. Since 1945 it has been steadily increasing, reaching a total of 15.5 billion dollars in 1955. Both real estate mortgage debt and other farm debts have been increasing.

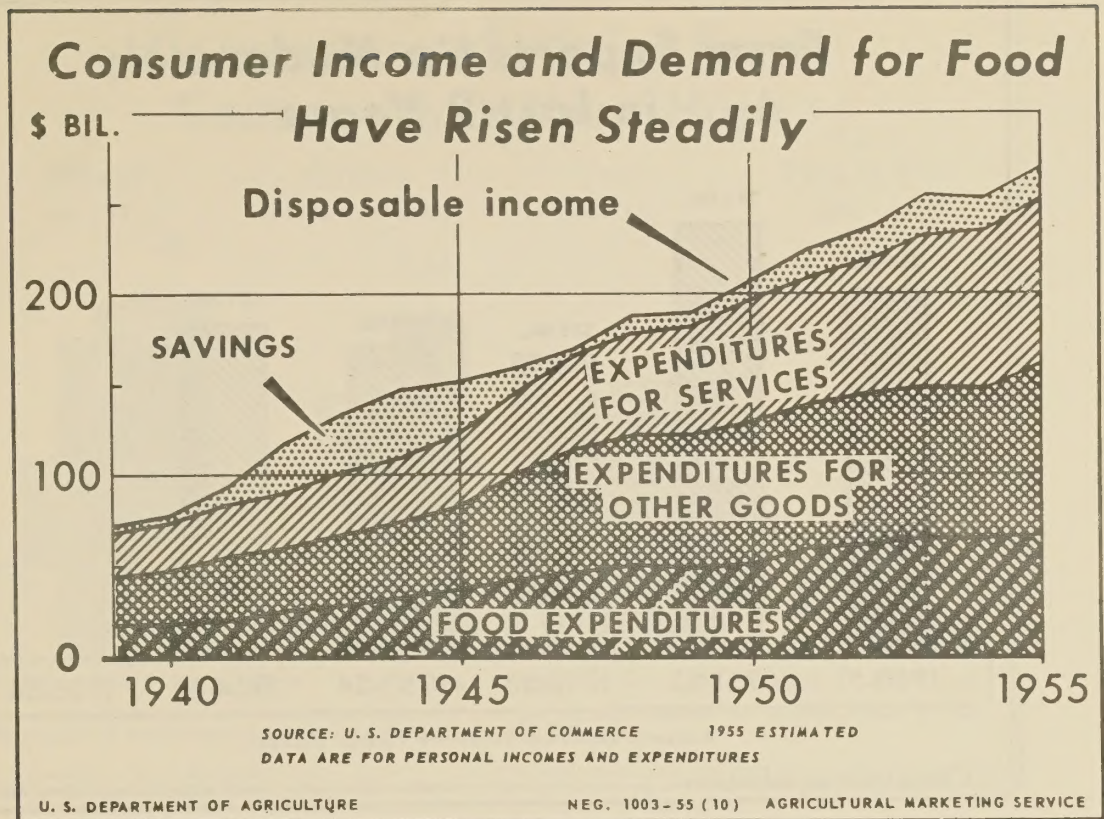
Of course, these figures do not indicate by any means that the average farmer is approaching bankruptcy. The total value of farm assets is much higher than total farm debt. In spite of the recent trends in debt, the farm financial situation is very good compared with the prewar situation.

The well-being of farmers is not measured entirely by income nor by debt. There are at least two indexes which show a more optimistic picture.

First, land values have held steady in recent years while farm incomes were dropping. In fact, average value of farm land per acre on July 1, 1955 was 5 percent higher than a year earlier.

Second, the level-of-living index shows a continuous improvement, indicating that farmers are getting more of the good things of life such as automobiles, radios, electricity, and telephones.



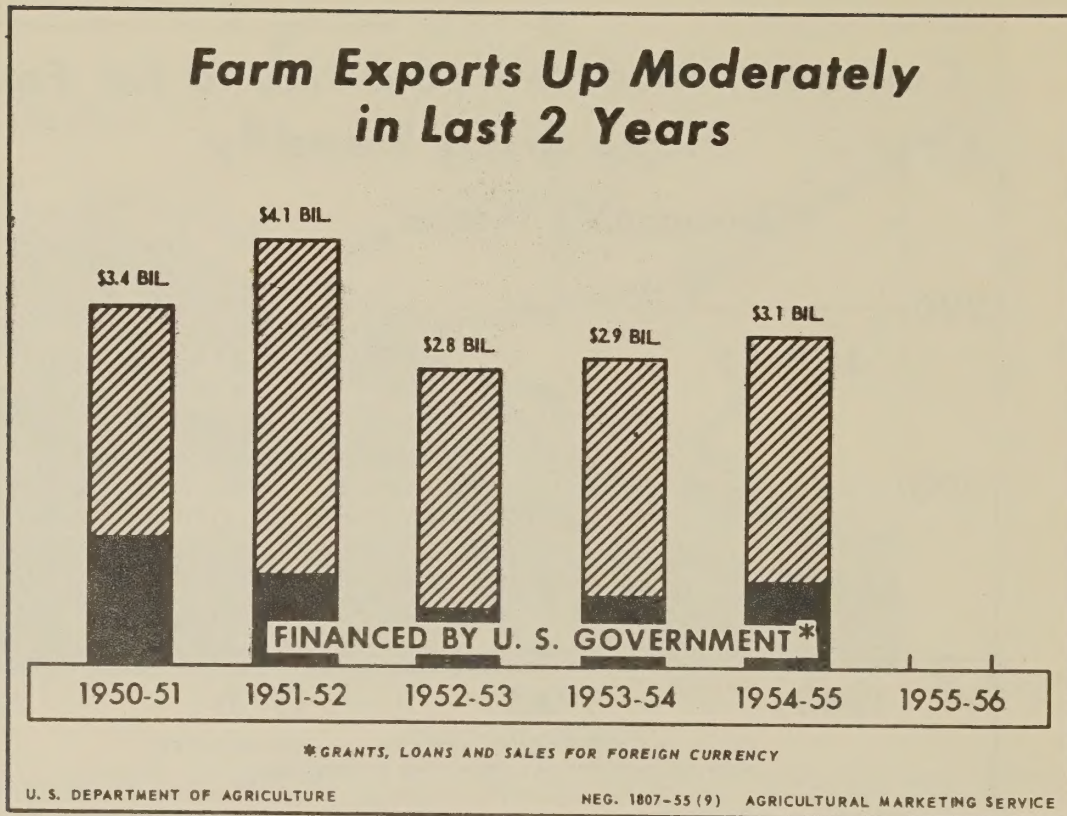


Since 1939 there has been a remarkable increase in disposable income of consumers. The per capita purchasing power of the average consumer has increased very substantially, although part of their increase in dollar income has been dissipated by higher prices.

High consumer income has resulted in a strong demand for food. Consumers have been spending year by year about a fourth of their disposable income for food. Their food expenditures have gone up in proportion to their disposable income. The demand for food at retail has been strong, is strong now, and is expected to be strong in 1955.

We must remember, however, that these figures on food expenditures are in terms of retail prices. The increase in food expenditures has not all been reflected in farm incomes. We shall discuss this further in connection with Chart 14.



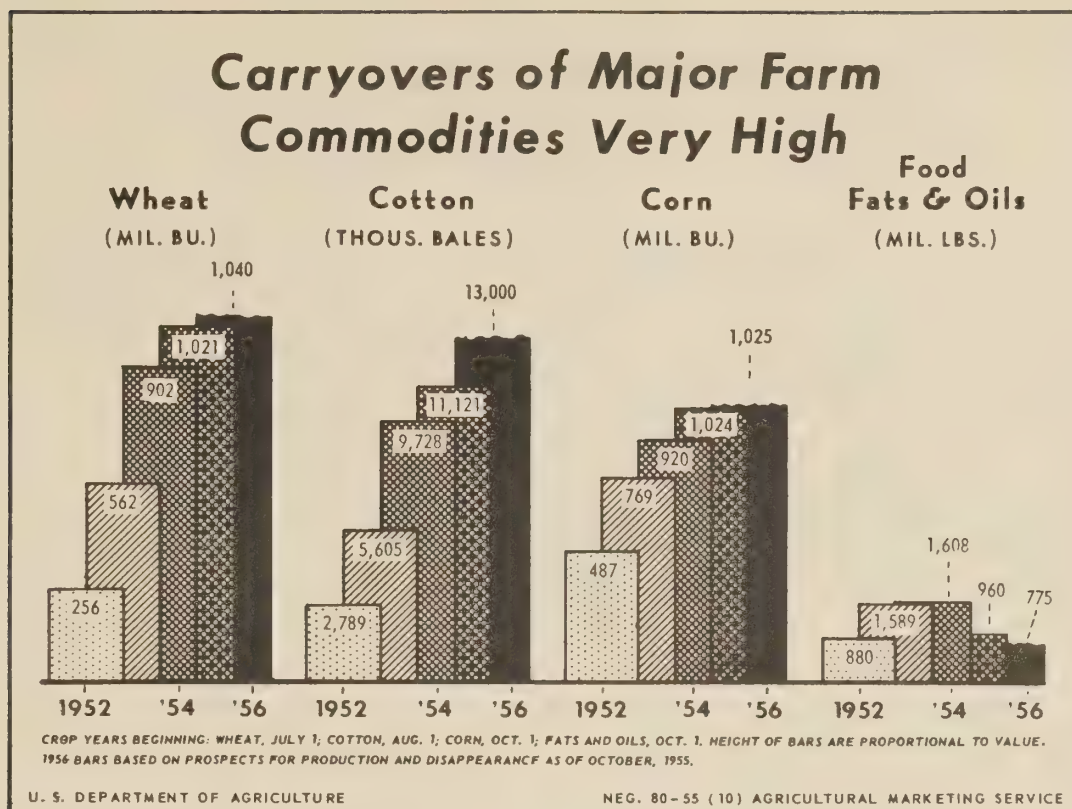


Not only has the domestic demand for food been high since the war, the demand for exports has been high, too. Farm income has been maintained partly by high commercial exports and partly by exports that were financed by the Government.

The export demand has not been nearly so stable as the domestic demand. The value of farm exports dropped almost one-third from the crop year 1951-52 to the crop year 1952-53. Since that time the value of exports has increased moderately.

In 1955-56, we expect the volume of our agricultural exports to be maintained at about the levels reached in 1954-55. Business is good in most foreign countries, and the demand for agricultural products is strong. But foreign supplies of farm products are increasing. Competition in foreign markets is active. We can maintain our farm exports only by vigorous Government programs.





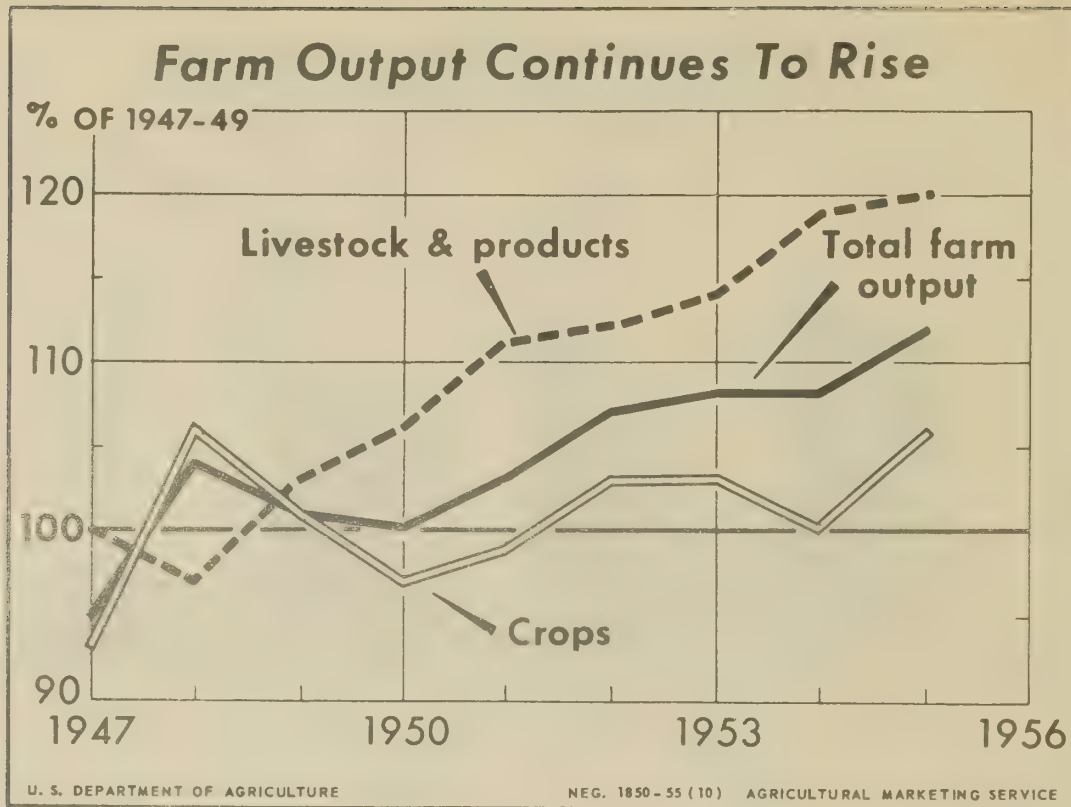
The carryover stocks of wheat, cotton, and corn have been increasing very rapidly during the past three years. The chart also shows rough estimates of probable carryover stocks of these commodities in the middle of 1956. Please note that we have not had time to bring this chart up to date in order to reflect the recently-increased estimate of 1955 cotton production. Present indications are that by mid-1956, the carryover of cotton will be increased significantly, that the wheat carryover will be up slightly, and that the corn carryover will be about the same as it was this year. Again, most stocks will be held by the CCC.

Comparing the carryovers at the middle of 1952 with those in the middle of 1955, we see that wheat had increased almost 4 times, cotton almost 4 times, and corn about  $2\frac{1}{2}$  times.

On the other hand, the carryover of food fats and oils dropped about 40 percent from 1954 to 1955, largely as the result of heavy exports. A further decrease is expected by the end of the present crop year.

Large carryover stocks of major farm commodities is one of the most difficult aspects of the farm outlook. The rapid growth in carryover stocks during the past few years is an indication that we have not brought our production and consumption into balance. We obviously must find some way of further reducing production of some major commodities or else stimulating greater consumption of them.



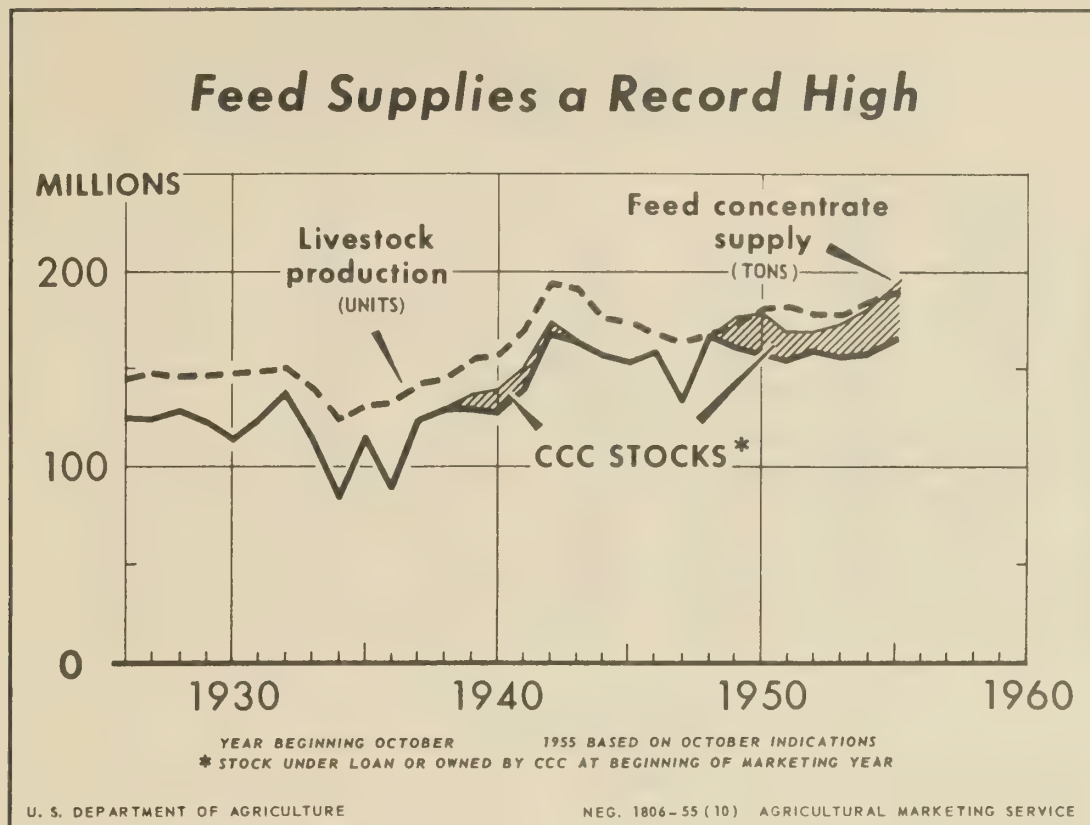


The total output of farm products has continued to grow since the war. This has occurred while the farm population has been steadily dropping. It is a tribute to the increasing efficiency of farmers. But it also confronts agriculture with serious problems.

The chart shows that total farm output has increased rather steadily since 1950, reaching a record high level in 1955. The trend in the output of crops has been somewhat uneven, and the increase in crop output has been much less than the increase in the output of livestock and livestock products.

Looking ahead to 1956, we can expect continued high agricultural output. With good weather, total output might well equal that of 1955.



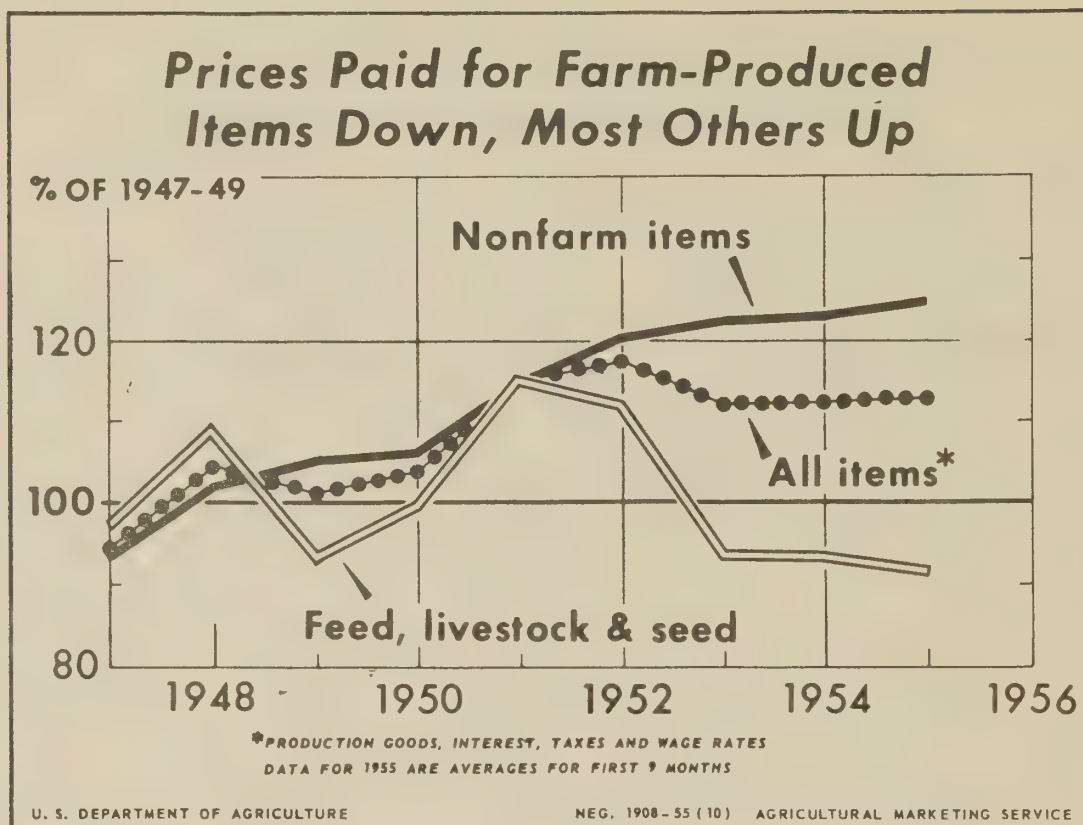


Feed supplies are extremely high this year and feed prices are relatively low. The present feed supplies per animal unit are a record high.

This situation encourages high rates of feeding. It is likely to mean higher milk production per cow and increased egg production per hen.

Also, plentiful supplies of feed tend to encourage increases in the number of animals bred and raised on farms. In 1956, however, we do not look for any substantial increase in the numbers of farm animals, mainly because we seem to be near the top of the cattle production cycle.



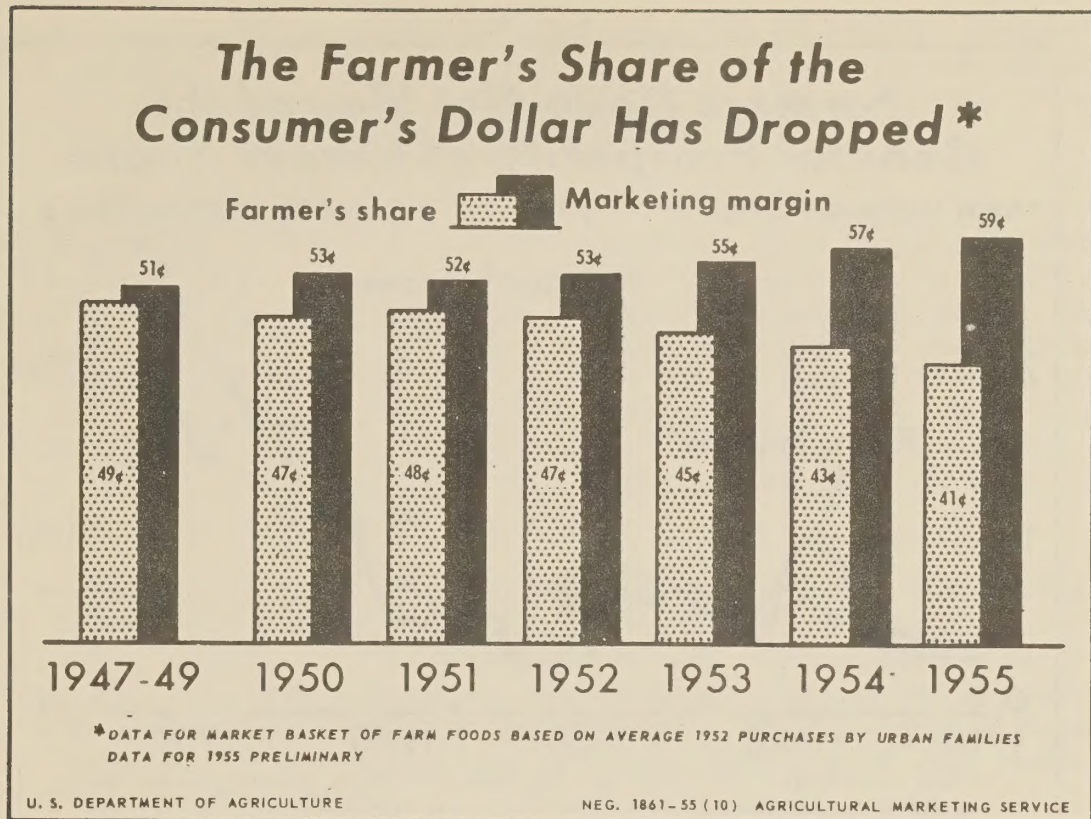


We have discussed the situation concerning farm income, demand and supply. We next turn briefly to two charts concerning trends in cost.

The index of prices paid by farmers for production items dropped noticeably from 1952 to 1953 and since has remained about steady. This index, however, is an average of two divergent trends. Prices paid for feed, livestock and seed have dropped substantially. These are things one farmer buys from another farmer. However, at the same time the prices of nonfarm items have continued to creep upward.

The prospects are that prices of feed, livestock and seed will remain low in 1956 and the prices of nonfarm items will continue to creep upward. The general level of prices paid by farmers next year is not likely to be greatly different than that of this year.





Not only have the costs of farm production been increasing, the costs of marketing food have been increasing, too.

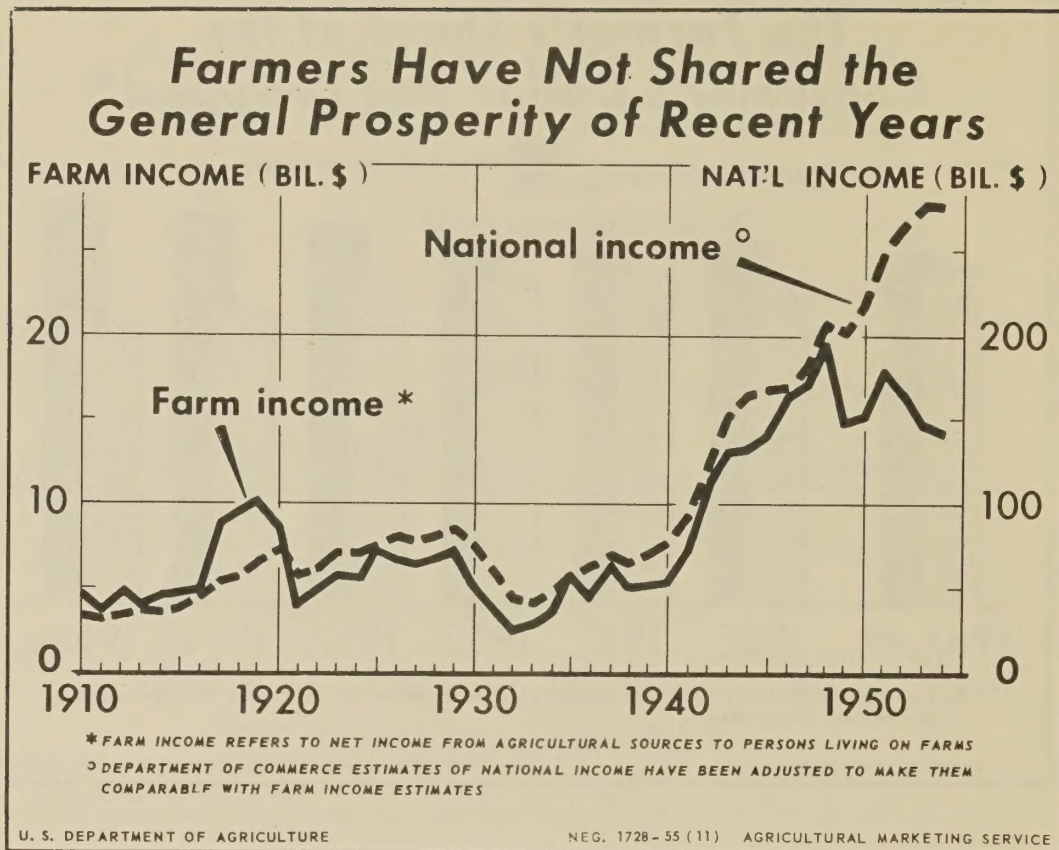
In the past few years retail prices of food have declined very little in spite of a sharp drop in prices at the farm. In other words, there has been a widening of the gap between prices at the farm and prices in city retail stores.

In connection with the chart on consumer disposable income, we mentioned that the demand for food continues to be very strong in terms of retail prices. A substantial part of consumer food expenditures, however, was absorbed by marketing, including processing, packaging, transporting, storing, wholesaling, and retailing.

The lower share of the dollar going to the farmer, shown in this chart, is not, primarily at least, a reflection of increased services. These data are based upon the so-called "market basket of farm foods." The same foods are priced from year to year, so far as it is possible to do so.

The increased marketing margin is primarily due to higher wages. There are some other factors, especially increased freight rates. These factors, too, are related to the trend in wages.





At this point I would like to turn back to Chart 1. We have already pointed out that farmers have not shared the increasing prosperity of recent years.

There are two main schools of thought concerning the relation between national income and farm income. Some people argue that a rise in national income causes a rise in farm income. Some others contend that a rise in farm income causes an increase in national income. Neither theory seems to be supported by the trends of the past few years. Farm income has been dropping, while national income has been rising.

The chart shows clearly that there has been a very high correlation between farm income and national income during most of the period from 1910 to date. The only major exceptions are the period of World War I and the period since 1948. For those who support the 7-to-1 theory, I would like to point out that during most of this period national income was about 12 times as great as net income from agricultural sources to persons living on farms. This might support a 12-to-1 theory rather than a 7-to-1 theory. Thus, one might argue that each dollar added to farm income generated a \$12 increase in national income rather than a \$7 increase. If he wanted a larger multiplier, he might take 1954, the last year on the chart, when national income was almost 20 times as great as farm income. Thus, he might get a multiplier of 20 instead of 12 or 7.



Personally, I am doubtful about any simple multiplier theory, whether the multiplier be 7, 12, or 20. But I do believe that in the long run agricultural incomes must be kept in fairly good balance with national income if we are to maintain a healthy growth in our total economy.

The drop in farm incomes during the past few years obviously has not brought about anything approaching a business recession. This is because farmers have so far maintained their expenditures at very high levels. They have continued to buy farm machinery, equipment, and the other things they need. However, more and more things are being bought on time, and farmers' debt is increasing. If farm income should continue to drop, or even to stay at present levels for several years, farm expenditures would doubtless drop, too. This would cause a reduction in employment and production in those industries serving farmers. Indirectly this would affect many other basic industries. In time, it could lead to weakness throughout the economy.

Almost everyone agrees that farm incomes are now too low. But this does not mean that farmers need, or are likely to get,  $1/7$  or even  $1/12$  of the national income in future years. With continued declines in the proportion of persons in agriculture, and continued growth in the manufacturing and service industries, it is only natural that the proportion of income going to farmers should decline. Probably in the future, net realized farm income will average less than  $1/12$  of national income.

In 1956, we expect a further rise in national income--but a further drop in farm income. This is an abnormal situation. If continued much longer it would lead to an unhealthy lack of balance in the American economy. But these abnormal trends are not likely to continue much longer. In most of the future, as in most of the past, farm income and national incomes are likely to move in the same direction. Farm prosperity and general prosperity still depend upon one another.



